

**CENTRAL WATER SYSTEM**  
**INDEPENDENT AUDITORS' REPORTS**  
**FINANCIAL STATEMENTS AND**  
**SCHEDULE OF FINDINGS**  
**DECEMBER 31, 2020**

# CENTRAL WATER SYSTEM

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CENTRAL WATER SYSTEM

DECEMBER 31, 2020

OFFICIALS

<u>NAME</u>	<u>TITLE</u>
Jake Hinshaw	Director - Chairman
Gary Vos	Director - Secretary/Treasurer
Russ Eckard	Director
Anthony Gray/Mike Frerk	Plant Superintendent



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## INDEPENDENT AUDITORS' REPORT

Board of Directors  
Central Water System  
Okoboji, IA 51355

We have audited the accompanying statement of cash receipts, disbursements, and change in cash balance of Central Water System (System) as of and for the year ended December 31, 2020, and the related notes to financial statement.

### Management's Responsibility for the Financial Statement

Management is responsible for the preparation and fair presentation of the financial statement in accordance with the cash basis of accounting described in Note 1. This includes determining the cash basis of accounting is an acceptable basis for the preparation of the financial statement in the circumstances. This includes the design, implementation and maintenance of internal control relevant to the preparation and fair presentation of the financial statement that is free from material misstatement, whether due to fraud or error.

### Auditors' Responsibility

Our responsibility is to express an opinion on the financial statement based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statement is free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statement. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the financial statement, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the System's preparation and fair presentation of the financial statement in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the System's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statement.

We believe the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

### **Opinion**

In our opinion, the financial statement referred to above presents fairly, in all material respects, the cash basis financial position of Central Water System as of December 31, 2020 and the change in its cash basis financial position for the year then ended in accordance with the basis of accounting described in Note 1.

### **Basis of Accounting**

As described in Note 1, the financial statement was prepared on the basis of cash receipts and disbursements, which is a basis of accounting other than accounting principles generally accepted in the United States of America. Our opinion is not modified with respect to this matter.

### **Other Matters**

#### *Other Information*

The other information, the Schedule of the System's Proportionate Share of the Net Pension Liability and the Schedule of System Contributions on pages 14 through 18, has not been subjected to the auditing procedures applied in the audit of the financial statement and, accordingly, we do not express an opinion or provide any assurance on it.

### **Other Reporting Required by Government Auditing Standards**

In accordance with *Government Auditing Standards*, we have also issued our report dated August 27, 2021 on our consideration of Central Water System's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on the effectiveness of the System's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Central Water System's internal control over financial reporting and compliance.

*Winthel, Staver & Co., LLP*

August 27, 2021  
Spencer, Iowa

## FINANCIAL STATEMENT

CENTRAL WATER SYSTEM  
STATEMENT OF CASH RECEIPTS, DISBURSEMENTS, AND  
CHANGE IN CASH BALANCE  
FOR THE YEAR ENDED DECEMBER 31, 2020

OPERATING RECEIPTS:

Water sales .....	\$ 606,797
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OPERATING DISBURSEMENTS:

Salaries - superintendent .....	87,354
Salaries - other .....	52,815
Chemicals .....	93,662
Repairs .....	54,648
Utilities .....	118,723
Payroll taxes and benefits .....	23,322
Employee insurance and HSA contributions .....	40,420
General insurance .....	41,414
Lab supplies .....	6,598
Testing and lab fees .....	1,507
Vehicle expenses .....	2,702
Clothing allowance .....	612
Legal and professional .....	7,515
Office supplies and postage .....	1,680
Telephone .....	4,677
Board expense .....	2,050
Bank charges .....	177
Miscellaneous .....	238
TOTAL OPERATING DISBURSEMENTS	540,114

EXCESS OF OPERATING RECEIPTS OVER  
OPERATING DISBURSEMENTS

66,683

NON-OPERATING RECEIPTS:

Rental income .....	30,000
Interest income .....	2,213
TOTAL NON-OPERATING RECEIPTS	32,213

CHANGE IN CASH BALANCE

98,896

CASH BALANCE - BEGINNING OF YEAR.....

406,575

CASH BALANCE - END OF YEAR

\$ 505,471

CASH BASIS FUND BALANCE:

Unrestricted .....	\$ 505,471
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CENTRAL WATER SYSTEM  
NOTES TO FINANCIAL STATEMENT  
YEAR ENDED DECEMBER 31, 2020

**1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

Central Water System was organized by a Joint Public Improvement Agreement between the City of Arnolds Park and the City of Okoboji dated April 11, 1977. Central Water System, organized under the Code of Iowa, Chapter 28E, was designed to operate a water system to jointly serve the two municipalities. Iowa Lakes Regional Water was later added as a customer through a water purchase contract with Central Water System dated January 11, 1989. All facilities and land acquired or constructed in connection with the System are to be owned by the two municipal parties as tenants in common with undivided ownership interest, the common facilities to be referred to as "Central Water System".

Central Water System is a component unit of the City of Arnolds Park, Iowa, as determined by criteria specified by the Governmental Accounting Standards Board. The System is operated by the parties through a joint Board of Directors consisting of one member from each city council, or such other individual as that council shall designate, and a third member appointed and approved by a majority vote of the city councils of the municipalities.

**Reporting Entity**

For financial reporting purposes, Central Water System has included all funds, organizations, account groups, agencies, boards, commissions, and authorities. The System has also considered all potential component units for which it is financially accountable, and other organizations for which the nature and significance of their relationship with the System are such that exclusion would cause the System's financial statements to be misleading or incomplete. The Governmental Accounting Standards Board has set forth criteria to be considered in determining financial accountability. These criteria included appointing a voting majority of an organization's governing body, and (1) the ability of the System to impose its will on that organization or (2) the potential for the organization to provide specific benefits to, or impose specific financial burdens on the System. Central Water System has no component units which meet the Governmental Accounting Standards Board criteria.

**Basis of Presentation**

The accounts of Central Water System are organized as an Enterprise Fund. Enterprise Funds are utilized to finance and account for acquisition, operation, and maintenance of governmental facilities and services supported by user charges.

Enterprise Funds distinguish operating receipts and disbursements from non-operating items. Operating receipts and disbursements generally result from providing services and producing and delivering goods in connection with the System's principal ongoing operations. All receipts and disbursements not meeting this definition are reported as non-operating receipts and disbursements.



CENTRAL WATER SYSTEM  
NOTES TO FINANCIAL STATEMENT - Continued  
YEAR ENDED DECEMBER 31, 2020

**1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued**

**Basis of Accounting**

Central Water System maintains its financial records on the basis of cash receipts and disbursements and the financial statement of the System is prepared on that basis. The cash basis of accounting does not give effect to accounts receivable, accounts payable, and accrued items. Accordingly, the financial statement does not present the financial position and results of operations of the System in accordance with accounting principles generally accepted in the United States of America.

**Compensated Absences**

Central Water System has established a written policy for sick leave and vacation accrual which states that no sick leave or vacation pay will accumulate one year to the next. Therefore, there are no accrued compensated absences at December 31, 2020.

**Use of Estimates**

The preparation of the financial statement in conformity with a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

**Income Taxes**

Central Water System is exempt from federal and state income taxes.

**Management's Review**

Management has evaluated subsequent events through the date of the independent auditors' report, which is the date the financial statements were available to be issued.

**2. CASH AND INVESTMENTS**

The System's deposits in banks at December 31, 2020 were entirely covered by federal depository insurance or by the State Sinking Fund in accordance with Chapter 12C of the Code of Iowa. This chapter provides for additional assessments against the depositories to insure there will be no loss of public funds.

The System is authorized by statute to invest public funds in obligations of the United States government, its agencies and instrumentalities; certificates of deposit or other evidences of deposit at federally insured depository institutions approved by the Board of Directors; prime eligible bankers acceptances; certain high-rated commercial paper; perfected repurchase agreements; certain registered open-end management investment companies; and certain joint investment trusts.

CENTRAL WATER SYSTEM  
NOTES TO FINANCIAL STATEMENT - Continued  
YEAR ENDED DECEMBER 31, 2020

**3. PENSION AND RETIREMENT BENEFITS**

Plan Description - IPERS membership is mandatory for employees of the System, except for those covered by another retirement system. Employees of the System are provided with pensions through a cost-sharing multiple employer defined benefit pension plan administered by Iowa Public Employees' Retirement System (IPERS). IPERS issues a stand-alone financial report which is available to the public by mail at PO Box 9117, Des Moines, IA 50306-9117 or at [www.ipers.org](http://www.ipers.org).

IPERS benefits are established under Iowa Code chapter 97B and the administrative rules thereunder. Chapter 97B and the administrative rules are the official plan documents. The following brief description is provided for general information purposes only. Refer to the plan documents for more information.

Pension Benefits - A Regular member may retire at normal retirement age and receive monthly benefits without an early-retirement reduction. Normal retirement age is age 65, anytime after reaching age 62 with 20 or more years of covered employment, or when the member's years of service plus the member's age at the last birthday equals or exceeds 88, whichever comes first. These qualifications must be met on the member's first month of entitlement to benefits. Members cannot begin receiving retirement benefits before age 55. The formula used to calculate a Regular member's monthly IPERS benefit includes:

- A multiplier based on years of service.
- The member's highest five-year average salary, except members with service before June 30, 2012 will use the highest three-year average salary as of that date if it is greater than the highest five-year average salary.

If a member retires before normal retirement age, the member's monthly retirement benefit will be permanently reduced by an early-retirement reduction. The early-retirement reduction is calculated differently for service earned before and after July 1, 2012. For service earned before July 1, 2012, the reduction is 0.25% for each month that the member receives benefits before the member's earliest normal retirement age. For service earned starting July 1, 2012, the reduction is 0.50% for each month that the member receives benefits before age 65.

Generally, once a member selects a benefit option, a monthly benefit is calculated and remains the same for the rest of the member's lifetime. However, to combat the effects of inflation, retirees who began receiving benefits prior to July 1990 receive a guaranteed dividend with their regular November benefit payments.

Disability and Death Benefits - A vested member who is awarded federal Social Security disability or Railroad Retirement disability benefits is eligible to claim IPERS benefits regardless of age. Disability benefits are not reduced for early retirement. If a member dies before retirement, the member's beneficiary will receive a lifetime annuity or a lump-sum payment equal to the present actuarial value of the member's accrued benefit or calculated with a set formula, whichever is greater. When a member dies after retirement, death benefits depend on the benefit option the member selected at retirement.

CENTRAL WATER SYSTEM  
NOTES TO FINANCIAL STATEMENT - Continued  
YEAR ENDED DECEMBER 31, 2020

**3. PENSION AND RETIREMENT BENEFITS - Continued**

Contributions - Contribution rates are established by IPERS following the annual actuarial valuation, which applies IPERS' Contribution Rate Funding Policy and Actuarial Amortization Method. State statute limits the amount rates can increase or decrease each year to 1 percentage point. IPERS Contribution Rate Funding Policy requires that the actuarial contribution rate be determined using the "entry age normal" actuarial cost method and the actuarial assumptions and methods approved by the IPERS Investment Board. The actuarial contribution rate covers normal cost plus the unfunded actuarial liability payment based on a 30-year amortization period. The payment to amortize the unfunded actuarial liability is determined as a level percentage of payroll based on the Actuarial Amortization Method adopted by the Investment Board.

In 2020, pursuant to the required rate, Regular members contributed 6.29% of pay and the System contributed 9.44% for a total rate of 15.73%.

The System's contributions to IPERS for the year ended December 31, 2020 totaled \$13,099.

Net Pension Liabilities, Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions - At December 31, 2020, the System had a liability for its proportionate share of the net pension liability of \$92,743. The net pension liability was measured as of June 30, 2019, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. The System's proportion of the net pension liability was based on the System's share of contributions to IPERS relative to the contributions of all IPERS participating employers. At June 30, 2019, the System's proportion was .0016016% which was an increase of .000042% from its proportion measured as of June 30, 2018.

For the year ended December 31, 2020, the System's pension expense, deferred outflows, and deferred inflows totaled \$17,060, \$14,575, and \$18,170, respectively.

There were no non-employer contributing entities to IPERS.

Actuarial Assumptions - The total pension liability in the June 30, 2019 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement, as follows:

Rate of inflation (effective June 30, 2017)	2.60% per annum.
Rates of salary increase (effective June 30, 2017)	3.25 to 16.25%, average, including inflation.
Long-term investment rate of return (effective June 30, 2017)	7.00%, compounded annually, net of investment expense, including inflation.
Wage growth (effective June 30, 2017)	3.25% per annum, based on 2.60% inflation and 0.65% real wage inflation

CENTRAL WATER SYSTEM  
NOTES TO FINANCIAL STATEMENT - Continued  
YEAR ENDED DECEMBER 31, 2020

**3. PENSION AND RETIREMENT BENEFITS - Continued**

Actuarial Assumptions - Continued - The actuarial assumptions used in the June 30, 2019 valuation were based on the results of an economic assumption study dated March 24, 2017 and a demographic assumption study dated June 28, 2018.

Mortality rates used in the 2019 valuation were based on the RP-2014 Employee and Health Annuitant Tables with MP-2017 generational adjustments.

The long-term expected rate of return on IPERS' investments was determined using a building-block method in which best-estimate ranges of expected future real rates (expected returns, net IPERS investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. The target allocation and best estimates of arithmetic real rates of return for each major asset class are summarized in the following table:

<u>Asset Class</u>	<u>Asset Allocation</u>	<u>Long-Term Expected Real Rate of Return</u>
Domestic Equity	22.0%	5.60%
International Equity	15.0	6.08
Global Smart Beta Equity	3.0	5.82
Core Plus Fixed Income	27.0	1.71
Public Credit	3.5	3.32
Public Real Assets	7.0	2.81
Cash	1.0	(0.21)
Private Equity	11.0	10.13
Private Real Assets	7.5	4.76
Private Credit	<u>3.0</u>	3.01
Total	<u>100.0%</u>	

Discount Rate - The discount rate used to measure the total pension liability was 7.0%. The projection of cash flows used to determine the discount rate assumed that employee contributions will be made at the contractually required rate and that contributions from the System will be made at contractually required rates, actuarially determined. Based on those assumptions, the IPERS' fiduciary net position was projected to be available to make all projected future benefit payments of current active and inactive employees. Therefore, the long-term expected rate of return on IPERS' investments was applied to all periods of projected benefit payments to determine the total pension liability.

CENTRAL WATER SYSTEM  
NOTES TO FINANCIAL STATEMENT - Continued  
YEAR ENDED DECEMBER 31, 2020

**3. PENSION AND RETIREMENT BENEFITS - Continued**

Sensitivity of the System's Proportionate Share of the Net Pension Liability to Changes in the Discount Rate - The following presents the System's proportionate share of the net pension liability calculated using the discount rate of 7.0%, as well as what the System's proportionate share of the net pension liability would be if it were calculated using a discount rate that is 1% lower (6.0%) or 1% higher (8.0%) than the current rate.

	1% Decrease <u>(6.0%)</u>	Discount Rate <u>(7.0%)</u>	1% Increase <u>(8.0%)</u>
System's proportionate share of the net pension liability	\$164,682	\$ 92,743	\$ 32,402

IPERS' Fiduciary Net Position - Detailed information about IPERS' fiduciary net position is available in the separately issued IPERS financial report which is available on IPERS' website at [www.ipers.org](http://www.ipers.org).

**4. OTHER POST EMPLOYMENT BENEFITS (OPEB)**

Plan Description - The System operates a single-employer benefit plan which provides medical and prescription drug benefits for employees and retirees. Group insurance benefits are established under Iowa Code Chapter 509A.13. The System currently finances the benefit plan on a pay-as-you-go basis. For the year ended December 31, 2020, the System contributed \$30,888; and plan members eligible for benefits made no contributions to the plan. No assets have been accumulated in a trust that meets the criteria in paragraph 4 of GASB Statement No. 75.

OPEB Benefits - Individuals who are employed by the System and are eligible to participate in the group health plan are eligible to continue healthcare benefits upon retirement. Retirees under age 65 pay the same premium for the medical/prescription drug benefits as active employees, which results in an implicit rate subsidy. Retired participants must be age 55 or older at retirement. At December 31, 2020, three active and no retired employees were covered by the benefit terms.

CENTRAL WATER SYSTEM  
NOTES TO FINANCIAL STATEMENT - Continued  
YEAR ENDED DECEMBER 31, 2020

**5. RISK MANAGEMENT**

The System is a member of the Iowa Communities Assurance Pool, as allowed by Chapter 670.7 of the Code of Iowa. The Iowa Communities Assurance Pool (Pool) is a local government risk-sharing pool whose 779 members include various governmental entities throughout the State of Iowa. The Pool was formed in August 1986 for the purpose of managing and funding third-party liability claims against its members. The Pool provides coverage and protection in the following categories: general liability, automobile liability, automobile physical damage, public officials liability, police professional liability, property, inland marine, and boiler/machinery. There have been no reductions in insurance coverage from prior years.

Each member's annual casualty contributions to the Pool fund current operations and provide capital. Annual casualty operating contributions are those amounts necessary to fund, on a cash basis, the Pool's general and administrative expenses, claims, claims expenses, and reinsurance expenses estimated for the year, plus all or any portion of any deficiency in capital. Capital contributions are made during the first six years of membership and are maintained at a level determined by the Board not to exceed 300% of basis rate.

The Pool also provides property coverage. Members who elect such coverage make annual property operating contributions which are necessary to fund, on a cash basis, the Pool's general and administrative expenses, reinsurance premiums, losses and loss expenses for property risks estimated for the fiscal year, plus all or any portion of any deficiency in capital. Any year-end operating surplus is transferred to capital. Deficiencies in operations are offset by transfers from capital and, if insufficient, by the subsequent year's member contributions.

The System's property and casualty contributions to the Pool are recorded as disbursements from its operating funds at the time of payment to the Pool. The System's contributions to the Pool for the year ended December 31, 2020 were \$37,943.

The Pool uses reinsurance and excess risk-sharing agreements to reduce its exposure to large losses. The Pool retains general, automobile, and public officials' liability risks up to \$500,000 per claim. Claims exceeding \$500,000 are reinsured through reinsurance and excess risk-sharing agreements up to the amount of risk-sharing protection provided by the System's risk-sharing certificate. Property and automobile physical damage risks are retained by the Pool up to \$250,000 each occurrence, each location. Property risks exceeding \$250,000 are reinsured through reinsurance and excess risk-sharing agreements up to the amount of risk-sharing protection provided by the City's risk-sharing certificate.

CENTRAL WATER SYSTEM  
NOTES TO FINANCIAL STATEMENT - Continued  
YEAR ENDED DECEMBER 31, 2020

**5. RISK MANAGEMENT - Continued**

The Pool's intergovernmental contract with its members provides that in the event a casualty claim, property loss, or series of claims or losses exceeds the amount of risk-sharing protection provided by the member's risk-sharing certificate, or in the event that a casualty claim, property loss, or series of casualty claims or losses exhausts the Pool's funds and any excess risk-sharing recoveries, then payment of such claims or losses shall be the obligation of the respective individual member against whom the claim was made or the loss was incurred. As of June 30, 2020, settled claims have not exceeded the risk pool or reinsurance coverage since the Pool's inception.

Members agree to continue membership in the Pool for a period of not less than one full year. After such period, a member who has given 60 days' prior written notice may withdraw from the Pool. Upon withdrawal, payments for all casualty claims and claims expenses become the sole responsibility of the withdrawing member, regardless of whether a claim was incurred or reported prior to the member's withdrawal. Upon withdrawal, a formula set forth in the Pool's intergovernmental contract with its members is applied to determine the amount (if any) to be refunded to the withdrawing member.

The System also carries commercial insurance purchased from other insurers for coverage associated with workers' compensation. The System assumes liability for any deductibles and claims in excess of coverage limitations. Settled claims resulting from these risks have not exceeded commercial insurance coverage in any of the past three fiscal years.

**6. MAJOR CUSTOMERS**

During the year ended December 31, 2020, the System received 85% of its revenues from two entities as follows:

	<u>Amount</u>	<u>Percent</u>
City of Arnolds Park .....	\$297,104	49%
City of Okoboji .....	<u>219,820</u>	<u>36</u>
TOTAL	<u>\$516,924</u>	<u>85%</u>

**7. LITIGATION**

The System may become party to routine legal proceedings and litigation arising in the normal course of operations. These legal proceedings typically are not expected to have a material adverse impact on the System's financial condition.

CENTRAL WATER SYSTEM  
NOTES TO FINANCIAL STATEMENT - Continued  
YEAR ENDED DECEMBER 31, 2020

**8. LEASES**

The System leases space on two water towers for cell phone antennas. Both leases are in the final 10-year option and expire in April 2025, with payments received at the beginning of the annual lease term. Lease payments under the agreements totaled \$30,000 in 2020.

Future minimum/fixed rental payments to be received subsequent to December 31, 2020 are as follows:

<u>December 31,</u>	
2021 .....	\$ 30,000
2022 .....	30,000
2023 .....	30,000
2024 .....	<u>30,000</u>
<b>TOTAL</b>	<b><u>\$120,000</u></b>



## OTHER INFORMATION

CENTRAL WATER SYSTEM  
SCHEDULE OF THE SYSTEM'S PROPORTIONATE SHARE OF  
THE NET PENSION LIABILITY

IOWA PUBLIC EMPLOYEES' RETIREMENT SYSTEM  
FOR THE LAST SIX YEARS \*  
(IN THOUSANDS)

OTHER INFORMATION

	<u>2020</u>	<u>2019</u>	<u>2018</u>
System's proportion of the net pension liability .....	.001602%	.001559%	.001876%
System's proportionate share of the net pension liability .....	\$ 93	\$ 99	\$ 125
System's covered-employee payroll .....	\$ 124	\$ 120	\$ 115
System's proportionate share of the net pension liability as a percentage of its covered-employee payroll .....	75.00%	82.50%	108.96%
Plan fiduciary net position as a percentage of the total pension liability .....	85.45%	83.62%	82.21%

\* In accordance with GASB Statement No. 68, the amounts presented for each fiscal year were determined as of June 30 of the preceding fiscal year.

<u>2017</u>	<u>2016</u>	<u>2015</u>
.001554%	.001531%	.001540%
\$ 98	\$ 76	\$ 62
\$ 148	\$ 106	\$ 104
66.22%	71.70%	60.01%
81.82%	85.19%	87.61%

CENTRAL WATER SYSTEM  
SCHEDULE OF SYSTEM CONTRIBUTIONS

IOWA PUBLIC EMPLOYEES' RETIREMENT SYSTEM  
FOR THE LAST 10 YEARS  
(IN THOUSANDS)

OTHER INFORMATION

	<u>2020</u>	<u>2019</u>	<u>2018</u>	<u>2017</u>
Statutorily required contribution .....	\$ 13	\$ 12	\$ 11	\$ 10
Contributions in relation to the statutorily required contribution .....	<u>(13)</u>	<u>(12)</u>	<u>(11)</u>	<u>(10)</u>
Contribution deficiency (excess) .....	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 0</u>
System's covered-employee payroll ...	\$ 141	\$ 124	\$ 120	\$ 115
Contributions as a percentage of covered-employee payroll .....	9.22%	9.68%	9.17%	8.93%

<u>2016</u>	<u>2015</u>	<u>2014</u>	<u>2013</u>	<u>2012</u>	<u>2011</u>
\$ 13	\$ 9	\$ 9	\$ 9	\$ 8	\$ 7
<u>(13)</u>	<u>(9)</u>	<u>(9)</u>	<u>(9)</u>	<u>(8)</u>	<u>(7)</u>
<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 0</u>
\$ 148	\$ 106	\$ 104	\$ 103	\$ 102	\$ 104
8.93%	8.93%	8.93%	8.67%	8.07%	6.95%

CENTRAL WATER SYSTEM  
NOTES TO OTHER INFORMATION - PENSION LIABILITY  
YEAR ENDED DECEMBER 31, 2020

**Changes of Benefit Terms**

There are no significant changes in benefit terms.

**Changes of Assumptions**

The 2018 valuation implemented the following refinements as a result of a demographic assumption study dated June 28, 2018:

- Changed mortality assumptions to the RP-2014 mortality tables with mortality improvements modeled using Scale MP-2017.
- Adjusted retirement rates.
- Lowered disability rates.
- Adjusted the probability of a vested Regular member electing to receive a deferred benefit.
- Adjusted the merit component of the salary increase assumption.

The 2017 valuation implemented the following refinements as a result of an experience study dated March 24, 2017:

- Decreased the inflation assumption from 3.00% to 2.60%.
- Decreased the assumed rate of interest on member accounts from 3.75% to 3.50% per year.
- Decreased the discount rate from 7.50% to 7.00%.
- Decreased the wage growth assumption from 4.00% to 3.25%.
- Decreased the payroll growth assumption from 4.00% to 3.25%.

The 2014 valuation implemented the following refinements as a result of quadrennial experience study:

- Decreased the inflation assumption from 3.25% to 3.00%.
- Decreased the assumed rate of interest on member accounts from 4.00% to 3.75% per year.
- Adjusted male mortality rates for retirees in the Regular membership group.
- Moved from an open 30 year amortization period to a closed 30 year amortization period for the UAL beginning June 30, 2014. Each year thereafter, changes in the UAL from plan experience will be amortized on a separate closed 20 year period.



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**INDEPENDENT AUDITORS' REPORT ON INTERNAL CONTROL OVER FINANCIAL  
REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON  
AN AUDIT OF FINANCIAL STATEMENTS PERFORMED  
IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS**

To the Board of Directors  
Central Water System  
Okoboji, IA 51355

We have audited in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States the financial statement of Central Water System as of and for the year ended December 31, 2020, and the related notes to financial statement and have issued our report thereon dated August 27, 2021. Our report expressed an unmodified opinion on the financial statement which was prepared on the basis of cash receipts and disbursements, a basis of accounting other than accounting principles generally accepted in the United States of America.

**Internal Control Over Financial Reporting**

In planning and performing our audit of the financial statement, we considered Central Water System's internal control over financial reporting to determine the audit procedures appropriate in the circumstances for the purpose of expressing our opinion on the financial statement, but not for the purpose of expressing our opinion on the effectiveness of the System's internal control. Accordingly, we do not express an opinion on the effectiveness of the System's internal control.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A material weakness is a deficiency, or combination of deficiencies, in internal control such that there is a reasonable possibility a material misstatement of the System's financial statement will not be prevented, or detected and corrected, on a timely basis. A significant deficiency is a deficiency, or combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and, therefore, material weaknesses or significant deficiencies may exist that were not identified. We consider the deficiency in internal control described in Part I of the accompanying Schedule of Findings as item I-A-20 to be a material weakness.

### **Compliance and Other Matters**

As part of obtaining reasonable assurance about whether Central Water System's financial statement is free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, non-compliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of non-compliance or other matters that are required to be reported under *Government Auditing Standards*.

Comments involving statutory and other legal matters about Central Water System's operations for the year ended December 31, 2020 are based exclusively on knowledge obtained from procedures performed during our audit of the financial statement of Central Water System. Since our audit was based on tests and samples, not all transactions that might have had an impact on the comments were necessarily audited. The comments involving statutory and other legal matters are not intended to constitute legal interpretations of those statutes.

### **Central Water System's Responses to Findings**

The System's response to the finding identified in our audit is described in the accompanying Schedule of Findings. The System's responses were not subjected to the auditing procedures applied in the audit of the financial statement and, accordingly, we express no opinion on them.

### **Purpose of this Report**

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the result of that testing and not to provide an opinion on the effectiveness of Central Water System's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Central Water System's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

We would like to acknowledge the many courtesies and assistance extended to us by personnel of Central Water System during the course of our audit. Should you have any questions concerning any of the above matters, we shall be pleased to discuss them with you at your convenience.

*Wintner, Stave & Co., LLP*

August 27, 2021  
Spencer, Iowa



CENTRAL WATER SYSTEM  
SCHEDULE OF FINDINGS  
FOR THE YEAR ENDED DECEMBER 31, 2020

**Part I: Findings Related to the Financial Statements**

**Internal Control Deficiency:**

I-A-20    Segregation of Duties

Criteria - Management is responsible for establishing and maintaining internal control. A good system of internal control provides for adequate segregation of duties so no one individual handles a transaction from its inception to completion. In order to maintain proper internal control, duties should be segregated so the authorization, custody, and recording of transactions are not under the control of the same employee. This segregation of duties helps prevent losses from employee error or dishonesty.

Condition - One individual is primarily responsible for all recordkeeping and reconciling functions for the System. An independent person is not involved with these functions to any significant degree.

Cause - The System has a limited number of employees and procedures have not been designed to adequately segregate duties or provide compensating controls through additional oversight of transactions and processes.

Effect - Inadequate segregation of duties could adversely affect the System's ability to prevent or detect and correct misstatements, errors, or misappropriation on a timely basis by employees in the normal course of performing their assigned functions.

Recommendation - We realize segregation of duties is difficult with a limited number of office employees. However, the System should review its procedures to obtain the maximum internal control possible under the circumstances utilizing currently available staff, including officials.

Response - We will continue to review our procedures and implement additional controls where possible.

Conclusion - Response accepted.

**Instances of Noncompliance:**

No matters were noted.

CENTRAL WATER SYSTEM  
SCHEDULE OF FINDINGS - Continued  
FOR THE YEAR ENDED DECEMBER 31, 2020

**Part II: Other Findings Related to Statutory Reporting**

- II-A-20 Questionable Disbursements - We noted no disbursements that may not meet the requirements of public purpose as defined in an Attorney General's opinion dated April 25, 1979.
- II-B-20 Travel Expense - No expenditures of money for travel expenses of spouses of System officials or employees were noted.
- II-C-20 Board Minutes - No transactions were found that we believe should have been approved in the System's minutes but were not.
- II-D-20 Deposits and Investments - No instances of non-compliance with the deposit and investment provisions of Chapter 12B and Chapter 12C of the Code of Iowa were noted.